



# **1977 ANNUAL REPORT**

## **Somerville Belkin Industries Limited**

*Formerly Somerville Industries Ltd. (takeover by Belkin, 1977)*

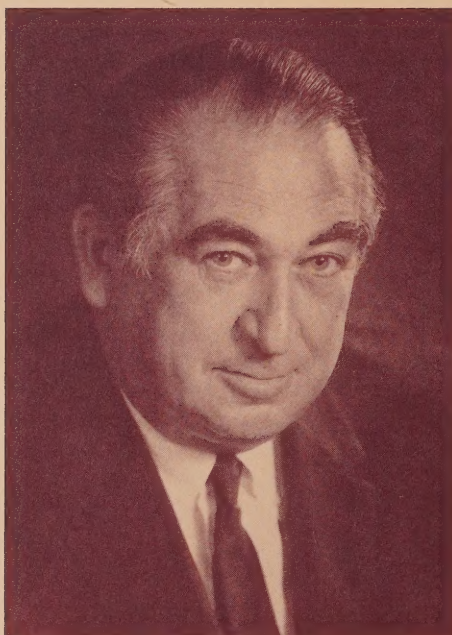


**Somerville Belkin Industries Limited,**  
with its head office located in London, Ontario,  
operates ten plants — in Montreal, Brockville,  
Toronto, Bramalea, London, Windsor, Winnipeg  
and Richmond.

The Company produces folding cartons, flexible  
packaging, games and puzzles, vacuum formed,  
compression and injection moulded plastics,  
automotive products, and provides  
merchandising services.



## Report to Shareholders



The sales and earnings of Somerville Belkin Industries Limited for the 1977 fiscal year covered a period of only nine months as the year-end was changed to September 30 to coincide with that of its parent company, Belkin Packaging Ltd. Sales for the nine month period amounted to \$55,103,000 compared to \$69,365,000 recorded during the fiscal year ended December 31, 1976. By way of comparison, sales for the nine months ended September 30, 1976 amounted to \$51,539,000 hence the current period's performance represents an increase of 6.9%.

Packaging sales for the nine months to September, 1977, reached \$42,823,000 compared to \$39,120,000 achieved for the comparative period of 1976 and \$52,620,000 for the whole of 1976. Sales for 1977 include the results of the Richmond, B.C. Folding Carton Plant which was acquired from Belkin Packaging Ltd. on June 30, 1977. Other divisions of the company recorded sales of \$12,280,000 for the nine months which represented a reduction of \$139,000 or 11.2% from the comparable period of 1976 and compares with \$16,745,000 for the whole of 1976.

Net income for the nine months to September, 1977, amounted to \$1,838,000 compared to an unaudited \$2,781,000 for the comparable period of 1976 and a restated \$3,205,000 for all of 1976. The lower earnings for the current period reflect the generally adverse economic conditions prevailing in Canada and the Company's inability, in almost all segments of its operations, to recover rising costs. This was particularly prevalent in the Packaging Divisions where over-capacity in the industry and intense price competition resulted in lower profits. The Merchandising Services Division produced record sales and profits while the results of Automotive Products were comparable with those of the previous year. The profitability of the Plastics Division was adversely affected by competitive marketing while the Games Division performance was less than satisfactory.

The Company's equity earnings in Mastico Industries Limited in which it holds a 50% interest were lower than in 1976. The decline was due to the difficulty in passing on cost increases, the weight reduction programme being followed by the automotive companies which reduces the weight and area covered by the company's product, while modifications to major equipment also had a depressing effect on income.

Collective agreements signed during the year were settled in accordance with A.I.B. guidelines. At year-end, three agreements which expired during the year were still under negotiation. Union contracts expiring after April 14, 1978 will not be subject to A.I.B. controls. It is anticipated however that given the current state of the economy, the Unions will be co-operative and practice restraint in the post control period.

It is a pleasure to thank all those employees who contributed to the performance of the Company during the past year. In particular, I would like to thank Ian MacDonald who I regret to report was forced to resign as President and Chief Executive Officer during the year due to ill health. Ian has been associated with Somerville for over 20 years and while his presence will be sorely missed, I am pleased that he has agreed to remain as a member of the Board of Directors. In the meanwhile, I have assumed the position of Chief Executive Officer on a temporary basis.

While 1977 has been a most difficult and disappointing year, an improvement is expected in fiscal 1978 as a result of cost reductions and an improvement in productivity and pricing levels. As always, the continuing support of all employees will be a vital determining factor.

M. Belkin  
Chairman of the Board and  
Chief Executive Officer



# Consolidated Balance Sheet

(000's omitted)

Somerville Belkin Industries Limited  
(Incorporated under the laws of Canada)  
As at September 30, 1977  
(with comparative amounts as at December 31, 1976)

<b>Assets</b>	<b>1977</b>	<b>1976</b>
<b>Current Assets</b>		
Accounts receivable .....	<b>\$12,821</b>	\$ 9,602
Income taxes recoverable .....	<b>1,153</b>	
Inventories (notes 2 and 6) .....	<b>17,787</b>	13,870
Prepaid expenses .....	<b>662</b>	153
	<b><u>32,423</u></b>	<u>23,625</u>
<b>Investments</b>		
Shares in 50% owned company — Mastico Industries Limited — at equity value .....	<b>901</b>	740
Sinking fund for preferred shares — government and industrial bonds at market values (cost — \$115,405) .....	<b>108</b>	108
	<b><u>1,009</u></b>	<u>848</u>
<b>Fixed Assets (note 7)</b>		
Land, buildings and equipment .....	<b>37,351</b>	27,826
Less accumulated depreciation .....	<b>16,440</b>	15,905
	<b><u>20,911</u></b>	<u>11,921</u>
<b>Intangibles</b>		
Debt financing costs .....	<b>208</b>	219
Preproduction costs .....	<b>492</b>	
	<b><u>700</u></b>	<u>219</u>
	<b><u>\$55,043</u></b>	<u>\$36,613</u>

Approved by the Board:  
M. Belkin, Director  
W. H. Rayner, Director

<b>Liabilities</b>	<b>1977</b>	<b>1976</b>
Current Liabilities		
Bank advances (note 8) .....	<b>\$13,738</b>	\$ 7,506
Accounts payable and accrued liabilities .....	<b>5,748</b>	4,688
Payable to parent company, Belkin Packaging Ltd. ....	<b>1,285</b>	
Income and other taxes payable .....	<b>833</b>	737
Dividends payable .....	<b>22</b>	22
Long term debt payable within one year .....	<b>175</b>	694
	<b>21,801</b>	13,647
Long term debt (note 8) .....	<b>10,425</b>	7,600
Income taxes provided not currently payable .....	<b>4,172</b>	2,977
<b>Shareholders' equity</b>		
Capital stock (note 9) .....	<b>13,993</b>	9,012
Retained earnings .....	<b>3,730</b>	2,455
Excess of appraised value of fixed assets over cost .....	<b>922</b>	922
	<b>18,645</b>	12,389
	<b><u>\$55,043</u></b>	<b><u>\$36,613</u></b>



**Consolidated  
Statement of  
Retained  
Earnings**  
(000's omitted)

Somerville Belkin Industries Limited  
For nine months ended September 30, 1977  
(with comparative amounts for year ended December 31, 1976)

	<u>1977</u>	<u>1976</u>
Balance at beginning of period		
As previously reported .....	<b>\$ 3,104</b>	\$13,053
Inventory valuation adjustment (note 2) .....	<b>649</b>	579
As restated .....	<b>2,455</b>	12,474
Net income .....	<b><u>1,838</u></b>	<u>3,205</u>
	<b><u>4,293</u></b>	<u>15,679</u>
Dividends		
Paid in cash		
Preferred shares .....	<b>65</b>	87
Common shares .....	<b><u>498</u></b>	<u>6,037</u>
	<b>563</b>	6,124
Paid in common shares .....	<b><u>563</u></b>	<u>7,100</u>
	<b><u>563</u></b>	<u>13,224</u>
Balance at end of period .....	<b><u>\$ 3,730</u></b>	<b><u>\$ 2,455</u></b>



# Consolidated Statement of Income

(000's omitted)

Somerville Belkin Industries Limited  
For nine months ended September 30, 1977  
(with comparative amounts for year ended December 31, 1976)

	<u>1977</u>	<u>1976</u>
Sales	<u>\$55,103</u>	<u>\$69,365</u>
Costs and expenses		
Cost of sales, selling and administrative expenses before the following items .....	<b>50,789</b>	62,640
Depreciation.....	<b>938</b>	1,020
Interest on long term debt.....	<b>572</b>	705
Other interest .....	<b>339</b>	321
Amortization of debt financing costs .....	<b>11</b>	13
	<u><b>52,649</b></u>	<u>64,699</u>
Income from operations .....	<b>2,454</b>	4,666
Equity in net income of Mastico Industries Limited.....	<u><b>294</b></u>	<u>489</u>
Income before income taxes.....	<b>2,748</b>	5,155
Income taxes (note 5) .....	<u><b>910</b></u>	<u>1,950</u>
Net income (note 2).....	<u><b>\$ 1,838</b></u>	<u>\$ 3,205</u>
Earnings per common share.....	<b>\$ 3.56</b>	<b>\$ 6.26</b>

## 8. Long term debt

	1977	1976
Debentures outstanding		
8½% Series A sinking fund debentures due April 1, 1993	\$ 7,600,000	\$7,700,000
First mortgage bonds outstanding		
6% Series B sinking fund bonds due June 15, 1977		594,000
Term bank loan	3,000,000	
	10,600,000	8,294,000
Less payable within one year	175,000	694,000
	<u>\$10,425,000</u>	<u>\$7,600,000</u>

Under the terms of the Trust Indenture the 8½% Series A sinking fund debentures are secured by a floating charge on the assets of the Company.

The term bank loan and bank advances are secured by a general assignment of accounts receivable and inventories.

Principal due on long term debt during the next five fiscal years is as follows:

1978	— \$175,000
1979-1982 inclusive	— \$480,000 per annum

## 9. Capital stock

	Number of Shares		Amount	
	1977	1976	1977	1976
Preferred, cumulative and non-cumulative redeemable shares, par value \$50 each, issuable in series				
Authorized	140,000	100,000		
Less purchased for cancellation	9,272	8,872		
	<u>130,728</u>	<u>91,128</u>		
Issued and outstanding				
\$2.80 sinking fund cumulative preferred shares, 1953 series, redeemable at \$51 per share	30,728	31,128	\$ 1,536,400	\$1,556,400
\$4.00 non-cumulative preferred shares, 1977 series, redeemable at \$51 per share	100,000		5,000,000	
	<u>130,728</u>	<u>31,128</u>	<u>6,536,400</u>	<u>1,556,400</u>
Common shares without par value				
Authorized	500,000	500,000		
Issued and outstanding	<u>498,300</u>	<u>498,300</u>	<u>7,456,300</u>	<u>7,456,300</u>
			<u>\$13,992,700</u>	<u>\$9,012,700</u>

During the period the Company applied for and received Supplementary Letters Patent increasing the authorized capital of the Company by an additional 40,000 preferred shares with a par value of \$50.00 each ranking on a parity with the existing preferred shares of the corporation bringing the total authorized preferred shares to 131,128. The Company then applied for and received Supplementary Letters Patent designating the unissued 100,000 authorized preferred shares as \$4.00 non-cumulative preferred shares, 1977 series, redeemable at \$51.00 per share. The 1977 series shares, which are subordinated to the 1953 series shares, were issued at their par value of \$50.00 each for a total consideration of \$5,000,000 as part settlement of the purchase of the Richmond, B.C. division as described in note 4.

## 10. Long term leases

Long term leases entered into by the Company extend into the year 1997. Under the terms of such leases, the aggregate rental amounts to \$5,604,000. The annual rental payable thereunder for the years 1978 to 1982 is approximately:

1978	\$465,000
1979	431,000
1980	337,000
1981	337,000
1982	336,000

## 11. Anti-inflation legislation

The Company is subject to anti-inflation legislation of the federal government.

## 12. Other statutory information

	1977	1976
(a) Directors and officers		
Number of directors	6	6
Aggregate remuneration as directors	Nil	Nil
Number of officers	5	5
Aggregate remuneration as officers	\$220,880	\$226,610
Number of officers who are directors	2	3
(b) Classes of business		
In the opinion of the directors the classes of business contributing in excess of 10% of sales were as follows:		
	Amount	Percentage
	1977	1976
Packaging	\$42,823,239	\$52,619,610
Other	12,279,794	16,745,637
	<u>\$55,103,033</u>	<u>\$69,365,247</u>
	77.7	75.9
	22.3	24.1
	<u>100.0%</u>	<u>100.0%</u>



# Auditors' Report

To the Shareholders of  
Somerville Belkin Industries Limited

We have examined the consolidated balance sheet of Somerville Belkin Industries Limited as at September 30, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the nine months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1977 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting policy as outlined in note 2, on a basis consistent with that of the preceding year.

*Thorne Riddell & Co.*

Chartered Accountants  
London, Canada  
November 23, 1977

**Directors**

Morris Belkin  
Peter A. Cherniavsky  
Ian A. MacDonald  
Douglas J. McKinnon  
Wallace H. Rayner  
Forrest Rogers

**Head Office**

Crumlin Side Road  
London, Ontario

**Transfer Agent**

The Canada Trust Company  
Toronto, London, Montreal,  
Winnipeg and Vancouver

**Stock Listing**

The Toronto Stock Exchange

**Auditors**

Thorne Riddell & Co.

**Officers**

Morris Belkin  
Chairman of the Board  
and Chief Executive Officer

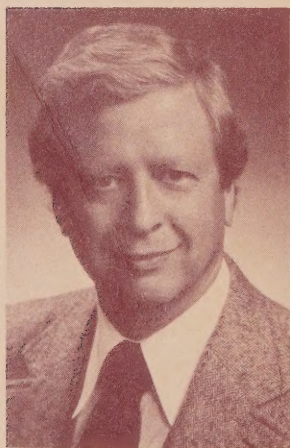
Wallace H. Rayner  
Secretary-Treasurer

Leslie A. Biddie  
Group Vice-President —  
Packaging Divisions

James C. Bacon  
Group Vice-President —  
Special Products Divisions

Thomas E. White  
Vice-President,  
Industrial Relations

Dennis R. Logan  
Controller



James C. Bacon



Leslie A. Biddie



Wallace H. Rayner



Thomas E. White





